

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type [ ] City [ ] Township [ ] Village [ x ] Other		Local Government Name Washtenaw County Voluntary Employees Beneficiary Association	County Washtenaw
Audit Date 12/31/04	Opinion Date 2/10/05	Date Accountant Report Submitted to State: 3/02/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

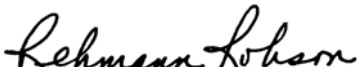
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |     |     |       |    |    |  |
|-----|-----|-------|----|----|--|
| [ ] | Yes | [ x ] | No | 1. | Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| [ ] | Yes | [ x ] | No | 2. | There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| [ ] | Yes | [ x ] | No | 3. | There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| [ ] | Yes | [ x ] | No | 4. | The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| [ ] | Yes | [ x ] | No | 5. | The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| [ ] | Yes | [ x ] | No | 6. | The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| [ ] | Yes | [ x ] | No | 7. | The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| [ ] | Yes | [ x ] | No | 8. | The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| [ ] | Yes | [ x ] | No | 9. | The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

**WASHTENAW COUNTY  
VOLUNTARY EMPLOYEES  
BENEFICIARY ASSOCIATION**

**Financial Statements**

**For The Years Ended  
December 31, 2004 and 2003**



**REHMANN ROBSON**

*Certified Public Accountants*

**WASHTENAW COUNTY  
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

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# REHMANN ROBSON

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

February 10, 2005

To the Board of Trustees of the Washtenaw County  
Voluntary Employees Beneficiary Association  
Ann Arbor, Michigan

We have audited the accompanying statements of plan net assets of the **Washtenaw County Voluntary Employees Beneficiary Association** (the "Association") as of December 31, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Voluntary Employees Beneficiary Association healthcare benefits trust fund and do not purport to, and do not, present fairly the financial position of Washtenaw County as of December 31, 2004 and 2003, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Association's net assets held in trust for healthcare benefits at December 31, 2004 and 2003, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

# **FINANCIAL STATEMENTS**

**WASHTENAW COUNTY**  
**VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**  
**Statements of Plan Net Assets**  
**December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Investments, at fair value:		
Common stocks	\$ 22,217,894	\$ 16,905,558
Mortgage backed securities	1,308,264	2,365,708
United States treasury strips	392,506	356,316
Other United States government securities	584,206	609,519
Corporate bonds and notes	163,620	-
Mututal funds	5,601,460	5,246,746
Money market funds	<u>2,168,785</u>	<u>2,169,805</u>
 Total investments	 32,436,735	 27,653,652
 <b>Liabilities</b>		
Accrued liabilities	<u>18,535</u>	<u>18,610</u>
 <b><u>Net Assets Held in Trust</u></b> <b><u>for Healthcare Benefits</u></b>	 <b><u>\$ 32,418,200</u></b>	 <b><u>\$ 27,635,042</u></b>

The accompanying notes are an integral part of these financial statements.

**WASHTENAW COUNTY**  
**VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**  
**Statements of Changes in Plan Net Assets**  
**For the Years Ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Additions to net assets</b>		
Contributions:		
Employer	\$ 4,788,478	\$ 3,971,889
Employees	<u>-</u>	<u>138,133</u>
Total contributions	<u>4,788,478</u>	<u>4,110,022</u>
Investment income (loss):		
Interest and dividends	709,298	542,581
Appreciation in fair value of investments	<u>2,683,828</u>	<u>3,656,651</u>
Total investment income (loss)	<u>3,393,126</u>	<u>4,199,232</u>
Investment management fees	<u>(182,336)</u>	<u>(121,466)</u>
Net income (loss) from investing activities	3,210,790	4,077,766
Total additions to net assets	<u>7,999,268</u>	<u>8,187,788</u>
<b>Deductions from net assets</b>		
Participant benefits	3,128,312	126,920
Administrative expenses	<u>87,798</u>	<u>62,479</u>
Total deductions from net assets	<u>3,216,110</u>	<u>189,399</u>
<b>Increase in net assets</b>	4,783,158	7,998,389
Net assets held in trust for healthcare benefits, beginning of year	<u>27,635,042</u>	<u>19,636,653</u>
<b>Net assets held in trust for healthcare benefits, end of year</b>	<u><u>\$ 32,418,200</u></u>	<u><u>\$ 27,635,042</u></u>

The accompanying notes are an integral part of these financial statements.

# **WASHTENAW COUNTY VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

## **Notes To Financial Statements**

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### **1. PLAN DESCRIPTION**

The Washtenaw County Voluntary Employees Beneficiary Association (VEBA; the “Association”) is a single-employer defined benefit postemployment healthcare plan established and administered by Washtenaw County (the “County”) to provide medical and healthcare benefits for retirees and their beneficiaries. Eligible participants include any retirees who receive pension benefits under one of the County’s pension plans. Association provisions are established and may be amended by the Washtenaw County Board of Commissioners, subject to the County’s various collective bargaining agreements.

The Association is funded by a trust agreement established pursuant to Section 501(c)(9) of the Internal Revenue Code which allows for the formation of such a plan, and is included as a pension and other employee benefits trust fund in the County’s financial statements.

Subject to certain age and length of service requirements, eligible participants receive the same or comparable medical insurance coverage under the Association as was in effect at the time of their employment. At such time that participants become Medicare eligible, the benefits under the Association change to Medicare Supplemental coverage.

Employer contributions to fund the Association are currently on a pay-as-you-go basis with additional contributions intended to build the fund for purposes of paying future benefits. Although an actuarial valuation of the Association was completed during 2004, the County has determined that it will establish an annual employer contribution rate using the actuarial valuation as a reference, but not as a definitive requirement.

In general, VEBA members are not required to contribute to the Association. However, provisions of the Washtenaw County Employees’ Retirement System Plan (WCERS; a separate defined benefit plan) allow that required contributions to the healthcare component of that plan, equal to 7% of annual covered compensation, may be directed to the VEBA, either in whole or in part, at the County’s discretion. No employee contributions were directed to the VEBA in 2004. Any such contributions in the future will likewise be subject to the discretion of the Washtenaw County Board of Commissioners and the WCERS Board, as well as any applicable collective bargaining agreements.

During 2004, a total of 516 members received healthcare benefits through the Association.



**WASHTENAW COUNTY  
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

**Notes To Financial Statements**

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**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting.*** The VEBA statements are prepared using the accrual basis of accounting. Employer and employee contributions are recognized in the period that the contributions are due.

***Method Used to Value Investments.*** Association investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

**3. INVESTMENTS**

The Association's investments are held by an independent investment management company. Following is a summary of the Association's investments as of December 31:

	<u><b>2004</b></u>	<u><b>2003</b></u>
Investments at fair value, as determined by quoted market prices:		
Common stocks	\$ 22,217,894	\$ 16,905,558
Mortgage backed securities	1,308,264	2,365,708
United States treasury strips	392,506	356,316
Other United States government securities	584,206	609,519
Corporate bonds and notes	163,620	-
Mutual funds	5,601,460	5,246,746
Money market funds	<u>2,168,785</u>	<u>2,169,805</u>
<b>Total investments</b>	<u><b>\$ 32,436,735</b></u>	<u><b>\$ 27,653,652</b></u>

**WASHTENAW COUNTY  
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

**Notes To Financial Statements**

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Investments are categorized to give an indication of the level of risk assumed at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Association or its agent in the Association's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Association's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the Association's name. At December 31, 2004 and 2003, all of the Association's investments are classified in Category 3, except for investments in mutual and money market funds which are not required to be categorized.

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